



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. February 26, 2008. The following members were present:

Chairman Jody B. Olson
Cliff Hayes
J. Kirk Sullivan
Bill Deal
Jeff Cilek

Executive Director Alan H. Winkle, Deputy Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Joanna Guilfoy, Financial Officer James Monroe and Management Assistant Cheri Campbell were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Drew Black	DBF
Brian McGrath	DBF
James Coleman	REAI
Rod MacKinnon	Mountain Pacific Investment Advisors
Bruce Reeder	Mountain Pacific Investment Advisors
Doug Bates	Clearwater Advisors
Dave Richardson	Clearwater Advisors
Mike Boren	Clearwater Advisors
Dona Van Trease	IPEA
Jim Shackelford	IEA
Brent Nye	Boise Schools
Lucinda Smith	BNY Mellon
Larry Johnson	EFIB
Lealan Miller	EIDE Bailly LLP
Todd Herbert	ACS

Jean Cassanos	ACS
Steven Santeussanio	ACS
Mike O'Leary	Callan
Mark Mathson	Buck Consultants
Lori Block	Buck Consultants
Joanne Ax	PERSI
Patrice Perow	PERSI
Rhonda Yadon	PERSI
Cecile McMonigle	PERSI
Debbie Buck	PERSI
Judy Aitken	PERSI
Diane Kaiser	PERSI
Carol Boylan	PERSI
Mike Mitchell	PERSI

EXECUTIVE SESSION

Citing Idaho Code §67-2345(1)(f) which authorizes an Executive Session to meet with legal counsel to discuss pending or potential litigation, by motion duly made by Trustee Cilek and seconded by Trustee Deal and approved unanimously, the Board convened in Executive Session at 8:30 a.m. During the session they discussed the possibility of litigation. No decisions were made during the session. They reconvened in regular session at 8:50 a.m.

MINUTES

Approval of the Minutes: By motion duly made by Trustee Deal and seconded by Trustee Cilek, the Board unanimously approved the minutes of the January 22, 2008 meeting with changes made to correct a statement made by Chairman Olson during the Indemnification Update.

PORTFOLIO

Callan Quarterly Update: Michael O'Leary summarized the quarterly reports that had been provided to the Board beforehand. The 4th quarter was good in both absolute and relative returns and the year was excellent despite the results of the last six months. Three strategic biases, emerging markets, global managers and TIPS were very positive. Private real estate helped and REITS hurt in both the quarter and the year. The positives significantly overpowered the negatives and relative performance was very strong.

In response to a question from Chairman Olson, Mr. O'Leary stated that private equity has been affected by recent liquidity events; however, existing deals are still working through the system and due to the reporting lag, the effects are not reflected in 12/31/07 performance.

Mr. O'Leary responded to Trustee Hayes' request for an explanation of the composition of the S&P 500 Index.

Chairman Olson asked about the Idaho Mortgage program. Mr. O'Leary responded that this portfolio is managed by a firm located in Boise, Idaho and has historically been priced off of Treasury Bonds, and thus, has performed well in recent markets.

In response to a question from Chairman Olson, Director Winkle explained that PERSI and Social Security use different CPI market baskets and dates to determine the COLA.

Mr. O'Leary reported that he and Investment Officer Richelle Sugiyama will be traveling to visit all of PERSI's East coast investment firms in the next few weeks.

Monthly Investment Report: Chief Investment Officer Robert Maynard reviewed his report dated February 25, 2008, an update to the February 14 version previously provided to the Board.

Credit concerns and a slowing economy, with high oil prices, a weak dollar, slowing consumer spending, stalling job growth, and declining corporate profits continue to drag down the equity markets. There is now the substantial possibility of an actual recession led by the substantial drop in the housing market. Further, with the Fed rate cut and expectations of more to come in the future, there is now concern about continued dollar weakness and potential inflation. On the other hand, global growth still continues, although markedly slowing (most noticeably in Europe).

The fund is down -0.2% for the month, and is down -1.6% for the fiscal year to date (-3.8% for the calendar YTD), at \$11.26 billion for the total fund. Equity markets are down around -8.0% fiscal year, "led" by much larger drops in small cap value and REITs. Private equity and emerging markets are up for the fiscal year, while international developed equities are down about the same as large cap US equities. Investment grade bonds, particularly Treasuries and TIPs, are doing very well for the fiscal year, although weak for this month. Private equity, Zesiger, Tukman, Fortis, Mtn Pacific and Barings are the leading performers against benchmark. Idaho Mortgages are also doing well. Donald Smith, Adelante, and Bernstein (both emerging markets and global), Genesis, and Brandes are substantially trailing their benchmarks. Western and Fidelity are also substantially behind their benchmarks.

PERSI is ahead of the strategic benchmark for the fiscal year-to-date, by 2.2%. Strategic weights to private equity, emerging markets, and TIPS are the major reason, along with active outperformance by global managers. Collective active management otherwise is negative. Formerly underperforming managers are outperforming their benchmarks (Mtn. Pacific, Tukman, Barings), while formerly outperforming managers are now lagging (e.g., Donald Smith, Brandes, Bernstein). Our new global manager, Fortis, has started out very strong, with good relative returns.

Mr. Maynard discussed recent cumulative returns. He stated that returns have gone sideways as have excess returns. He believes this trend will continue until the market corrects.

Trustee Hayes asked what portion of the portfolio Pareto manages. Mr. Maynard explained that Pareto manages a currency hedging portfolio for PERSI.

INVESTMENT MANAGER COMMENTS

Chairman Olson opened the meeting to comments from PERSI investment managers. Brian McGrath of DBF stated that deleveraging would help the economy. The best way to deleverage is to have inflation. He believes there will be a rollercoaster effect but in one year we will see the economy recovering, but with higher inflation. If the feds over stimulate the economy it will be two years before it recovers. Mike Boren of Clearwater Advisors agreed that the Fed went too far. He reported that people always expect more out of life than is realistic. There is no need to panic; this is not a depression. He believes there will be a typical recession with a nice recovery. Rod MacKinnon of Mountain Pacific says that they are watching the banking sector closely. Assets are deteriorating and the credit market is tight, making domestic finances difficult. This could cause the non-financial markets to deteriorate also. He believes we will avoid a recession due to double digit earnings in the emerging market and developed economies, but that there will be different market dynamics. Mr. MacKinnon added that prices of equities are reasonable. On a side note, he announced that Boise Inc.'s paper assets are now trading on the stock market.

DC PLAN UPDATE

Choice Plan Quarterly Report: Jean Cassanos with ACS told the Board the net change in plan market value is up 2.05%. Steven Santeussanio will be replacing Dave Marconi as the PERSI Plan Operations Lead. The plan has added two new fund choices, Calvert SRI Sudan Free and Mellon Wilshire 4500 Index. In response to a question from Trustee Sullivan, Ms. Cassanos stated the Sudan Free Fund is a socially responsible fund with a screen for Sudan. Director Winkle explained the reason for calling the fund Sudan Free is member recognition. This fund currently has 37 members, six of whom have moved up to 100% of their money to the fund. Trustee Hayes questioned how the Choice Plan assets shown on the report are larger than the Deferral Participants assets. The Choice Plan assets include both the gain sharing and the 401k combined.

The fourth quarter report shows that 85.64% of contributions are going into the PERSI Total Return Fund. In response to a question from Trustee Hayes, it was explained that the maximum withholding is \$15,500 annually. There are 50 or less participants contributing the maximum. Mr. Winkle reported the average annual contribution is \$3,450.

Communication Strategy: Mark Mathson and Lori Block from Buck Consultants reviewed their findings on ways to increase participation in the Choice Plan. They met with focus groups in the Boise area to determine ways to increase participation in the plan. It was determined that educating employees on the plans at the new hire point is most important. Trustee Sullivan asked why focus groups were done only in Boise. Since Boise has the largest population of PERSI employees, the consultants wanted to start here and then determine if there was a need to expand. No further groups were scheduled since they received repeat feedback which is consistent with information the trainers have reported from other areas of the state. The next phase is to develop a project

plan to provide more employer HR staff education and adjust communication materials. Trustee Deal recommended that PERSI contact other agencies and ask to speak at one of their All Staff meetings.

Trustee Hayes questioned why we are marketing the Choice Plan and not the 457 or 403b. Mr. Winkle explained the 401(k) has less administrative fees and is a good plan. Our Trainers are encouraging members to use any savings plan that meets their needs. They are working on a comparison sheet that will show the advantages of each plan.

EXECUTIVE DIRECTOR UPDATES

Legislative Update: Mr. Winkle reviewed the second Legislative Status Report of the session which tracks issues and potential legislation affecting PERSI. SB 1367 Divestment of PERSI Funds from Sudan failed in Legislative Committee with a 4-5 vote. Mr. Winkle thanked the Board members and constituent groups for their support and assistance. HB 362, removing the Board of Podiatry from PERSI, passed. Mr. Winkle gave an update on the proposed disabled police officers benefits. Mr. Drum stated he received a call yesterday with more questions and feels they may expand the program beyond just police since PERSI has no way to differentiate. In response to a question from Trustee Hayes, Mr. Winkle explained that medical insurance would be a Department of Administration issue, with funding coming from PERSI.

Chairman Olson thanked Trustee Sullivan for all of the work he puts in helping PERSI with legislative issues.

Executive Director's Status Report: Director Winkle asked the Trustees if there were any questions regarding his Status Update dated February 15, previously provided to the Board. Chairman Olson stated he has spoken with some firefighters and felt there were some misconceptions regarding FRF Funding. Mr. Winkle stated he spoke at the PFFI meeting yesterday and clarified issues.

Deputy Director's Status Update: Deputy Director Drum said all proposed PERSI rule changes were approved by the House and Senate. PERSI continues to work with the Boise School District on the problem of hiring retired teachers as substitutes and still staying within the PERSI rules. The Boise School District is also helping us with testing of the self audit program. Staff is working with the Meridian School District on the initial phase of reconciliation of the previous payroll issue. Larry Sweat has developed a supplemental on-line training program for employers. We are continuing to work on an automation plan for retiree insurance deductions. The previous case where the premiums were not deducted properly has been resolved. Two new education programs for members have been developed. PERSI trainers are presenting weekly workshops around the state. We are in the process of developing an RFI for an assessment on the Galena system.

FISCAL

Fiscal Update: Financial Officer Jim Monroe reported that the bids for audit services are being evaluated and that there were five bidders. Mr. Monroe also presented an update of the budget request for FY2009. The PERSI budget bill passed by JFAC includes the following which is consistent with most agency budgets. Benefits costs for health insurance have been reduced \$500 per person which is part of the CEC resolution, the inflation adjustment was removed and the anticipated 3% salary increase was added. Our replacement capital including a new SAN and our three new decision units were approved. Mr. Monroe went on to review the monthly budget reports and indicated that all expenses are on track to meet expectations by the end of the quarter. He then introduced Debbie Buck, Senior Accountant who presented and reviewed PERSI's quarterly financial statements for December 31, 2007.

OTHER BUSINESS

Joanne Ax Retirement: Chairman Olson recognized Management Assistant Joanne Ax for all of the hard work she has put in over the years for the Board and the PERSI employees. She was presented with a Certificate of Recognition from the Board members. Chairman Olson announced that there would be a reception in Joanne's honor following the meeting, and all are invited. Joanne will be missed.

May Meeting Location: The Board chose Lewiston as the location for their May 27th meeting.

October Meeting Date: Chief Investment Officer Maynard asked the Board to consider moving the October meeting by one week. The current meeting date coincides with the annual Asian roundtable meeting of the Pacific Pension Institute (PPI). Mr. Maynard is Chairman of the PPI Board. Chairman Olson asked that an e-mail be sent to the Trustees asking if the change will fit their schedules.

Adjournment: There being no further business to come before the Board, meeting adjourned at 11:25 a.m.

Alan H. Winkle
Executive Director

Jody B. Olson
Chairman